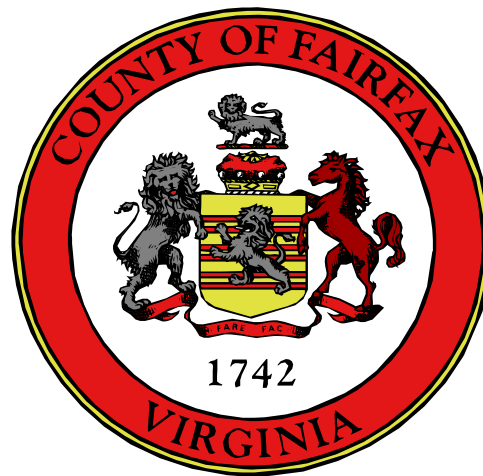


INTERNAL AUDIT REPORT

REVIEW OF INTERNAL CONTROLS OVER PROCUREMENT CARDS



Fairfax County Internal Audit Office

**FAIRFAX COUNTY, VIRGINIA
INTERNAL AUDIT OFFICE
M E M O R A N D U M**

TO: Anthony H. Griffin
County Executive

DATE: July 17, 2001

FROM: Ronald A. Coen, Director
Internal Audit Office

SUBJECT: Report on the *“Review of Internal Controls Over Procurement Cards”*

This is a report on the *“Review of Internal Controls Over Procurement Cards”*. It was performed as part of our FY 2001 Annual Audit Plan.

The findings and recommendations of this audit were discussed with the Department of Purchasing and Supply Management. We have reached agreement on all of the recommendations and I will follow up periodically until implementation is complete. Their responses are incorporated into the report and the full response is attached at the end of the report. After your review and approval, we will release the report to the Board of Supervisors.

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Introduction

The purpose of the County's Procurement Card Program is to offer County departments a procurement process for purchase and payment of low-dollar, non-inventory, non-capital items. The intent is to streamline the traditional procurement process by reducing the number of requisitions, purchase orders, invoices and checks needed for handling miscellaneous low-dollar transactions. The procurement card system enables users to obtain goods and services faster and easier. The Department of Purchasing and Supply Management (DPSM) introduced the procurement card in November 1994. At that time a one-year pilot program was implemented consisting of five user departments. At the end of November 2000 the program had grown to forty-five user departments, with 654 cardholders, making purchases in excess of \$3.5 million.

Unique controls have been developed for the Procurement Card Program that does not exist in a traditional credit card environment. Limits have been placed on the cards, which established certain restrictions, such as: the maximum dollar amount for a single purchase, the number of transactions authorized in a day and the maximum credit limit for each card. Also, restrictions placed on cards prevent its use for certain types of purchases (e.g., cash advances, betting) or types of vendors (e.g., bars, pawnshops, financial and related institutions). These controls help ensure that the card is used only for specific purposes and within specific dollar spending limits.

Fundamental to procurement functions is a system of principles and practices intended to protect the assets of the organization and to ensure the integrity of the financial process. That system is often referred to as the organization's "internal controls". The effective management of the procurement card process should include appropriate segregation of duties and management overview to deter errors, and prevent fraud and improprieties.

Purpose and Scope

We included a review of internal controls over procurement cards in our FY 2001 Audit Plan. We selected ten user departments that represented 22.4% of the total outstanding cards on November 30, 2000. The audit reviewed internal controls over processing by the ten user departments. The objectives of our testing were to determine if user departments are following County procedures and rules governing the use of the cards. These rules are outlined in Procedural Memorandum 12-02 "*Use of the County Procurement Card*". We will also determine if those rules and procedures provide reasonable assurance that the cards are used for authorized small business purchases within card restrictions, and that payments are processed, paid, and charged correctly. When card users implement effective internal control structure, the card program can serve its intended use without creating unmitigated risks, thereby increasing operating efficiency and cost savings for the County. The ten user departments selected were:

County Department	Card	% of Total \$'s
County Executive	1	0.3%
DPWES-Wastewater Collection	2	0.6%
DPWES-Wastewater Planning	2	1.7%
DPWES-Financial Management	11	0.6%
DPWES-Facilities Management	64	1.8%
Housing & Community Development	22	2.0%
Libraries	3	0.9%
Police Department	82	11.8%
Reston Community Center	3	1.8%
Sheriff's Office	17	0.9%
Totals	207	22.4%

Methodology

Audit methodology included a review and analysis of internal control procedures, procurement card expenditures and related accounting records at the ten user departments. Our review included inquiries of appropriate County employees, examination of Procurement Card expenditures, records and statements, interviews with users, and review of internal manuals and procedures. Our objective was to determine if adequate internal control procedures are in place and being followed by the ten user departments. We reviewed procurement card statements that were processed for September, October and November 2000, to determine that procurement card usage was in compliance with County Procedural Memorandum 12-02 "*Use of the County Procurement Card*". The audit was conducted in accordance with generally accepted government auditing standards.

Throughout this report we frequently used the terms User Department, Program Manager, Program Coordinator, and Bank One. These terms are defined as follows:

- **User Department** - A County department that participates in the procurement card program
- **Program Manager** - An employee who is responsible for all aspects of the procurement card program within the department
- **Program Coordinator** - An employee in the Department of Purchasing and Supply Management who administers the procurement card program for the County
- **PM 12-02** - Procedural Memorandum initiated by the Department of Purchasing and Supply Management (DPSM), dated October 6, 1997, to administrative staff, which contains County policy for use of the procurement card
- **Procurement Card** - Corporate Credit Card (MasterCard) provided through Bank One of Chicago

Executive Summary

Our review of the procurement card program disclosed that, overall, internal controls are adequate. Department of Purchasing and Supply Management (DPSM) is conscientiously administering the program. The following opportunities for enhancements to controls, limiting County liability, are discussed in detail in the report:

- User department's need to adhere to internal controls as required by PM No. 12-02. "*Use of County Procurement Card*". Internal control procedures at the ten user departments were well documented and included most of the elements of internal control as outlined in PM 12-02. However, the ten user departments need to address certain internal procedures to comply with PM 12-02. We presented specific recommendation to each user department in a separate memorandum.
- Adherence to internal control procedures is essential to controlling risk in the procurement card program. Currently, the County has approximately 654 procurement cards making purchases in excess of \$3.5 million. Increasing use of the card also increases the risks associated with the Card. Periodic monitoring by DPSM and Internal Audit will be required to ensure that adequate internal controls are in place and being followed by the user departments.

Comments and Recommendations

During our limited review of the Procurement Card Program, we identified certain practices and procedures which we believe could be enhanced to strengthen internal controls, increase efficiencies and help to prevent fraudulent activities. This review was not designed or intended to be a detailed study of every procedure or activity. Accordingly, the findings and recommendations presented in this report should not be considered as all-inclusive of areas where improvements may be needed.

1. User Department's need to adhere to internal controls as required by Procedural Memorandum No. 12-02."Use of County Procurement Card".

We selected 142 Card statements from ten user departments to review and test the purchasing activity for the months of September, October and November 2000. The objectives of our testing were to determine the extent that PM-12-02 "*Use of the County Procurement Card*" was being followed and adequate internal control procedures are in place and being followed by the user departments. Some of the attributes we tested and the corresponding test results follow:

Written Internal Control Procedures

Internal control procedures were well documented and included most of the elements of internal control as outlined in PM 12-02 "*Use of County Procurement Card*". However, the ten card user department's internal procedures needed updating. The following were some of the issues that users needed to address in order to comply with PM 12-02:

- Current card limitations
- Retention of receipts/sale slips
- Acceptable receipt if the department is unable to obtain an original receipt
- Reconciliation procedures to FAMIS and bank statement
- Responsibility for obtaining and maintaining the Employee Acknowledgement Disclosure form
- Processing of card receipts and the card Expenditure Log
- Transferring card expenditures from the clearing account into FAMIS
- Weekly reconciling of card expenditures to the Weekly Transaction Report (PVS Report)
- Review and approval of Weekly Transaction Report (PVS Report)
- Disputed items to be reported to the bank within 60 days of receipt of the bank statement

Recommendation

The DPSM Program Coordinator should advise all Program Managers to periodically review their written internal procedures. Appropriate changes should be made to correspond with current card operations. A copy of the revised procedures should be forwarded to the DPSM Program Coordinator for review and approval.

Agency Response

The DPSM Program Coordinator will issue a memorandum to all Program Managers (PMs) that discusses the recommendations resulting from this audit. The memorandum will advise PMs that written internal control procedures should be revised periodically to correspond with operations and that all revised procedures should be forwarded to DPSM for review.

In addition, all Procurement Assistance and Compliance (PAC) Program agency reviews include a review of written internal control procedures for the procurement card. Recommendations are made as appropriate.

Propriety of Purchases

While the Approving Official is in the best position to decide whether any purchase is improper, our review of the charges did not disclose any which appeared questionable, improper, or non-business related. However, we did note four instances which appeared to be split purchases so that the user would stay within the card's single purchase limit. Card limitations provide an important safeguard against card misuse. The splitting of a single purchase transaction should be considered a direct violation of County policy.

Recommendation

We recommend that the DPSM Procurement Card Coordinator issue a warning to Users who are found to engage in split purchases to circumvent their single purchase limit. If the practice continues, DPSM should consider revoking the users' card privileges.

Agency Response

PAC Program agency reviews include a sample review of procurement card transactions. If the review reveals split purchases, the resulting review report will describe the details of the purchases and recommend that the practice be discontinued. The review report is distributed to the Agency Director, as well as to the Program Manager. The Agency Director and/or Program Manager determine what course of action should be taken to avoid future splitting. If splitting is persistent in an agency or to a particular cardholder, DPSM will consider additional action.

In addition, DPSM makes a distinction between splits that circumvent a card's single purchase limit and splits that circumvent competitive requirements. For example, if a card with a \$300 single purchase limit (SPL) is used to split a \$500 purchase, DPSM would consider that an agency matter. If a \$2500 SPL card is used to split a \$5000 purchase, the issue would be considered more serious, because it circumvents County competitive requirements.

Vendor Receipts and Statement Approvals

The Card Program Manager reviews statements to ensure those users attach supporting receipts. If they cannot be found, the user is contacted to provide the appropriate documentation. This review process appears to be thorough, however we did find charges at three-user department without appropriate documentation. Our conclusion was that the charges were proper and that the documentation had been misplaced.

The Program Manager is required to review the Weekly Transaction Report and indicate their approval of the charges by initialing and dating the report. Our review disclosed that reports at five of the ten user departments did not have the Program Manager's approval. The Weekly Transaction

Report lists all transactions by user's card number that occurred from the prior week. The download reports are available online to those departments that have installed specialized vendor-provided software. Those departments that have not installed the software will receive a copy of their transactions weekly on a report sent by DPSM via the Internet.

Recommendation

The DPSM Program Coordinator should advise all Program Managers to initial and date the weekly transaction report to indicate approval.

Agency Response

This advice will be included in the memorandum to PMs discussed in paragraph 1 above. This direction is also included in Procedural Memorandum 12-02, *Use of the County Procurement Card* and is discussed in PM Training.

Employee Acknowledgement Disclosure Form

Five of the ten user departments had a number of employees who had used the card but had not completed a Disclosure Form. PM 12-02 requires that all first time users must sign a Disclosure Form. This form acknowledges the employee's responsibility in regards to card use and sets forth consequences for card misuse.

Recommendation

The DPSM Program Coordinator should advise all Program Managers that Disclosure Forms will be reviewed during DPSM periodic program reviews. The department's Program Manager should maintain the signed form for auditing purposes.

Agency Response

This advice will be included in the memorandum to PMs discussed in paragraph 1 above. It is currently discussed in PM Training. *Note: The PAC Program review includes a sample review of the Disclosure Forms, not a comprehensive review of all forms.*

Card Use by the Program Manager

The Program Manager at two of the ten card user departments had used the card to make departmental purchases. PM 12-02 states that the Program Manager should be an individual who does not use the card.

Recommendation

In the future, Program Manager training should advise program managers that if an urgent need arises, the program manager may use the card. When this occurs, another staff member, at the same level or senior to the Program Manager, must perform the reconciliation for that period. The Program Manager may use the card for travel purposes. When this occurs, the department must follow the same procedures as when the Program Manager uses the card to meet an urgent requirement.

Agency Response

Current Program Manager training already includes this advice. It is also addressed in PM12-02, *Use of the County Procurement Card*. A reminder will be included in the memorandum to PMs discussed in paragraph 1 above.

Expenditure Log

Two of the ten card user departments were not recording all of their purchases on the Expenditure Log. PM 12-02 requires, at a minimum, a system that tracks expenditures, as they occur, must be in place. Departments may use appropriate manual or computer log. Entries must be contemporaneous to give up-to-date information on funds expended.

Recommendation

The DPSM Program Coordinator should advise all Program Managers that Expenditure Logs will be reviewed for completeness during DPSM periodic program reviews. The department's Program Manager should periodically review the logs to determine that purchases are being entered by the cardholders.

Agency Response

This advice will be included in the memorandum to PMs discussed in paragraph 1 above. *Note: The PAC Program review includes a sample review of Expenditure Logs, not a comprehensive review of all logs.*

Reconciliation to FAMIS

Card expenditures at four of the ten user departments were not being moved on a monthly basis from the designated clearing account to the appropriate FAMIS expenditure account. On a weekly basis, DPSM will upload card transactions to FAMIS through an automated program. The program will post each card transaction to the FAMIS account associated with the individual card used to execute the transaction. If weekly billing is posted to a clearing account, the charges must be moved to the appropriate expenditure account. PM 12-02 requires that on a monthly basis, at a minimum, the using department must reconcile the bank statement or the weekly transaction reports to the amounts posted as expenditures in FAMIS.

Recommendation

Future Program Manager training should advise all program managers that the clearing account must be cleared each month. The Program Manager should periodically review transfer vouchers to determine that the transfers are being processed monthly. As evidence of the review the Program Manager should initial and date the copy of the transfer voucher. DPSM should consider developing an internal software program that could be used to monitor the clearing account (FAMIS 3375). This program could ensure that card transactions are being distributed to the appropriate FAMIS expenditure in a timely manner.

Agency Response

Current Program Manager training already advises PMs that the clearing account must be cleared each month. A reminder will also be included in the memorandum to PMs discussed in paragraph 1 above.

At this time, DPSM is not considering the development software to monitor the 3375 accounts. DPSM considers this a budgetary control issue and will work with the Departments of Finance and Management and Budget to determine a mutually acceptable solution for this ongoing issue.